



REPORT TO THE CONGRESS



**Farmers Home Administration
Did Not Enforce Its Requirements
Designed To Ensure
The Financial Soundness Of
Loans To Grazing Associations**

B-114873

Department of Agriculture

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

MAY 27, 1971

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114873

To the President of the Senate and the
Speaker of the House of Representatives

This is our report pointing out that the Farmers Home Administration, Department of Agriculture, did not enforce its requirements designed to ensure the financial soundness of loans to grazing associations.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Agriculture.

A handwritten signature in cursive script, reading "James B. Stacks".

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FARMERS HOME ADMINISTRATION DID NOT
ENFORCE ITS REQUIREMENTS DESIGNED TO
ENSURE THE FINANCIAL SOUNDNESS OF LOANS
TO GRAZING ASSOCIATIONS
Department of Agriculture B-114873

D I G E S T

WHY THE REVIEW WAS MADE

AGC 358

The Farmers Home Administration (FHA) makes loans to nonprofit associations of farmers and ranchers to finance the acquisition and development of grazing land for their livestock. From the inception of the program in 1963 to January 1, 1970, FHA loaned about \$78 million to 342 associations. (See pp. 5 and 6.)

In a report to the Congress on "Review of Loans to Grazing Associations" (B-114873, January 4, 1968), the General Accounting Office (GAO) pointed out the need for FHA to establish certain minimum loan-closing requirements to be met or exceeded by grazing associations before loans were made, to reduce the possibility of defaults and foreclosures on loans. (See p. 8.)

In March 1968, FHA issued revised instructions which provided that FHA loan approval officials, in a letter of conditions to each association applying for a grazing loan, establish the requirements which the association must meet regarding the

- minimum number of members,
- number of grazing units to be sold (i.e., rights to graze a specified number of animals), and
- initial cash contributions to be collected from each member.

The revised instructions provided that grazing loans not be closed until these loan requirements had been met by the grazing association. (See p. 9.)

These instructions were designed to ensure that sufficient resources were available to each association to enable it to repay its loan, meet operating expenses, develop resources, and establish a cash reserve.

GAO's current review was made to determine whether FHA had effectively implemented such requirements.

MAY 27, 1971

FINDINGS AND CONCLUSIONS

Loans still made where closing conditions not met

Contrary to its revised instructions, FHA is still making loans to grazing associations without enforcing the minimum loan-closing condition with respect to the required number of grazing units to be sold by the associations. The sale of the required minimum number of grazing units is the most significant factor in providing reasonable assurance that an association's operations will be financially feasible, since sales of grazing units are the principal source of income to an association. (See p. 10.)

GAO reviewed the conditions under which 40 loans were closed to 37 grazing associations in Colorado, Idaho, Montana, and South Dakota. The loans, totaling about \$8 million, were closed during April 1968 to May 1970 and represented about 80 percent of the total amount of all grazing loans closed by FHA in the four States during that period. During fiscal years 1969 and 1970, about 44 percent of the FHA grazing loans made nationwide were to associations in the four States.

GAO's analysis of FHA's and associations' records showed that, at the time that the loans were closed,

- 21 associations, which had received loans totaling \$4.2 million, had not sold the number of grazing units determined necessary by FHA's financial feasibility studies and
- FHA's letters of conditions for 15 of the 21 associations either had required the sale of fewer grazing units than indicated by its financial feasibility studies or had failed to specify the number of grazing units which should have been sold.

FHA's loan-closing conditions relating to the minimum number of members and initial cash contributions to be collected from members generally were met by the 21 associations. (See p. 11.)

Financial status of grazing associations covered in GAO's earlier review

GAO reviewed the current financial status of 16 of the associations covered in its earlier review to ascertain the potential effect of FHA's making loans without the associations' meeting the required loan-closing conditions. As of January 1967, five of the 16 associations were delinquent on their loan payments. FHA, in commenting on a draft of GAO's earlier report, had stated its belief that all 16 associations would be current on their payments and would realize net operating profits by the end of calendar year 1968.

As of January 1970, seven of the 16 associations were delinquent in their loan payments, and 12 of the 16 associations sustained operating

losses in calendar year 1969. If such losses were to continue, additional grazing loan payments could become delinquent. (See p. 15.)

RECOMMENDATIONS OR SUGGESTIONS

GAO proposed that the Administrator of FHA have established a program for monitoring, at the FHA State and county offices, the closing of grazing loans. The program should include evaluations, made on a systematic basis, of the adequacy of the established loan-closing conditions and of whether these conditions had been met by the associations. The evaluations should be made prior to the closing of loans so that Government funds will not be disbursed until the potential fiscal soundness of grazing associations has been determined. (See p. 17.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Administrator of FHA said that FHA was changing its regulations for grazing loans to require that

- each letter of conditions establish the minimum number of members required, the number of grazing units to be sold, and the amount to be collected for each grazing unit prior to loan closing;
- the number of grazing units to be sold be the number determined by FHA's financial feasibility study; and
- no loan to a grazing association be closed until FHA's district supervisor had certified by memorandum to the FHA State director that all loan-closing conditions had been met.

In a bulletin dated March 8, 1971 (see app. II), the Administrator advised the FHA State directors of the revised requirements.

The Administrator also said that FHA was taking positive steps to improve its line supervision over county office operations. He stated that FHA had increased the number of district supervisor positions by 78 during fiscal year 1971 and that this action would reduce the number of county offices reporting to district supervisors.

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO is bringing this matter to the attention of the Congress to advise it of the further measures taken by FHA as a result of GAO findings to provide greater assurance of the financial soundness of loans made to grazing associations.

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ABBREVIATIONS

FHA	Farmers Home Administration
GAO	General Accounting Office

D I G E S T

WHY THE REVIEW WAS MADE

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- minimum number of members,
- number of grazing units to be sold (i.e., rights to graze a specified number of animals), and
- initial cash contributions to be collected from each member.

The revised instructions provided that grazing loans not be closed until these loan requirements had been met by the grazing association. (See p. 9.)

These instructions were designed to ensure that sufficient resources were available to each association to enable it to repay its loan, meet operating expenses, develop resources, and establish a cash reserve.

GAO's current review was made to determine whether FHA had effectively implemented such requirements.

FINDINGS AND CONCLUSIONS

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Contrary to its revised instructions, FHA is still making loans to grazing associations without enforcing the minimum loan-closing condition with respect to the required number of grazing units to be sold by the associations. The sale of the required minimum number of grazing units is the most significant factor in providing reasonable assurance that an association's operations will be financially feasible, since sales of grazing units are the principal source of income to an association. (See p. 10.)

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GAO's analysis of FHA's and associations' records showed that, at the time that the loans were closed,

- 21 associations, which had received loans totaling \$4.2 million, had not sold the number of grazing units determined necessary by FHA's financial feasibility studies and
- FHA's letters of conditions for 15 of the 21 associations either had required the sale of fewer grazing units than indicated by its financial feasibility studies or had failed to specify the number of grazing units which should have been sold.

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GAO proposed that the Administrator of FHA have established a program for monitoring, at the FHA State and county offices, the closing of grazing loans. The program should include evaluations, made on a systematic basis, of the adequacy of the established loan-closing conditions and of whether these conditions had been met by the associations. The evaluations should be made prior to the closing of loans so that Government funds will not be disbursed until the potential fiscal soundness of grazing associations has been determined. (See p. 17.)

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The Administrator of FHA said that FHA was changing its regulations for grazing loans to require that

- each letter of conditions establish the minimum number of members required, the number of grazing units to be sold, and the amount to be collected for each grazing unit prior to loan closing;
- the number of grazing units to be sold be the number determined by FHA's financial feasibility study; and
- no loan to a grazing association be closed until FHA's district supervisor had certified by memorandum to the FHA State director that all loan-closing conditions had been met.

In a bulletin dated March 8, 1971 (see app. II), the Administrator advised the FHA State directors of the revised requirements.

The Administrator also said that FHA was taking positive steps to improve its line supervision over county office operations. He stated that FHA had increased the number of district supervisor positions by 78 during fiscal year 1971 and that this action would reduce the number of county offices reporting to district supervisors.

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO is bringing this matter to the attention of the Congress to advise it of the further measures taken by FHA as a result of GAO findings to provide greater assurance of the financial soundness of loans made to grazing associations.

CHAPTER 1

INTRODUCTION

In a report to the Congress on "Review of Loans to Grazing Associations" (B-114873, January 4, 1968), the General Accounting Office pointed out the need for the Farmers Home Administration to establish certain minimum loan-closing requirements to be met or exceeded by grazing associations before Federal loans were made, to reduce the possibility of defaults and foreclosures on loans.

These requirements, concerning the number of grazing units to be sold, the number of members required, and the amount of operating capital required, were designed to provide greater assurance that an association had sufficient resources to be capable of successful operation. Our current review was made to determine whether FHA had effectively implemented such requirements. The finding and recommendation included in the 1968 report are discussed in detail in chapter 2.

Our review was made at the FHA headquarters office in Washington, D.C., and at the FHA State and county offices in Colorado, Idaho, Montana, and South Dakota. We reviewed the pertinent policies, procedures, and practices under which FHA made loans to grazing associations and examined FHA and association records pertaining to 40 loans in the four States. We also examined into the financial status of the grazing associations included in our earlier review.

ORGANIZATION OF FHA

FHA maintains 41 State offices--which serve the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands--and about 1,700 county offices. Each FHA State office is headed by an FHA State director who is responsible for all program operations within his territorial jurisdiction. The FHA county offices, each under the supervision of an FHA county supervisor, are located throughout the country and serve all agricultural counties. Applications for all loans are made initially to the county or State offices. County office operations are subject to

review by the district supervisor or other FHA State officials.

Under FHA instructions, grazing loans up to \$350,000 may be approved by the FHA State director and loans of \$350,000 or more are reviewed by the FHA headquarters office before the loans are approved by the State director. The instructions also state that the FHA county supervisor is responsible for determining whether all loan-closing conditions have been met by an association before Federal funds are disbursed.

STATUTORY AUTHORITY AND
ADMINISTRATIVE REQUIREMENTS
FOR GRAZING LOANS

Section 306 of the Consolidated Farmers Home Administration Act of 1961, as amended (7 U.S.C. 1926), authorizes FHA to make or insure loans to nonprofit associations of farmers and ranchers to finance the acquisition and development of grazing land for their livestock. The act provides that

- loans to associations be made at an interest rate not to exceed 5 percent per annum,
- loans be made only when FHA determines that associations are unable to obtain sufficient credit elsewhere to finance their actual needs at reasonable rates and terms,
- loans be repaid over a period not to exceed 40 years, and
- maximum principal loan indebtedness not exceed .
\$4 million for any association at any one time.

As defined by FHA, a grazing association is a member-owned, member-operated, and member-managed nonprofit association of family farmers and ranchers, organized to acquire and develop grazing land to provide seasonal grazing for livestock belonging to its members. FHA defines a family-size farm or ranch operation as one in which the

family provides the entire management and more than 50 percent of the labor for the operation.

Grazing association loans are designed to help small farmers and ranchers increase their income by improving their livestock quality, providing more stable operations and more bargaining power in the marketplace, strengthening their rural community, and increasing their share in land equity.

Grazing associations derive their income principally from the sale of grazing units to their members. By purchasing grazing units, a member acquires the right to graze a specified number of cattle (or other animals) on association lands during that grazing season. Grazing units are equivalent to a specified number of steers, heifers, or other types of animals and are usually sold on a seasonal basis at a monthly grazing fee. In some cases, FHA has placed a limit on the number of grazing units which may be purchased by any one association member.

FINANCING OF FHA'S GRAZING LOANS

Grazing loans made from the inception of the program in 1963 to January 1, 1970, totaled \$78 million. At January 1, 1970, grazing loans of about \$76 million were outstanding to 342 associations. At that date, 37 of the associations, or 10.8 percent, were delinquent in the amount of \$2.3 million on their loan payments. FHA advised us in March 1971 that the delinquencies had been reduced by \$1.4 million as a result of its loan-servicing action taken with respect to one loan.

Direct loans are financed with Treasury borrowings and are made from FHA's Direct Loan Account up to a maximum amount established by the Congress for the program in annual appropriation acts. The last direct loan for grazing purposes was made in 1968; no direct loans are planned to be made in the remainder of fiscal year 1971 or in fiscal year 1972.

Insured loans are made from FHA's Agricultural Credit Insurance Fund. After making these loans at an interest rate not to exceed 5 percent per annum, as established by law,

FHA sells the associations' loan notes to investors for periods ranging from 3 to 25 years and guarantees repayment of the loans. To make the notes attractive to investors, FHA pays interest on the loan notes at rates that are competitive with interest rates being paid for private capital. Effective February 15, 1971, FHA was paying from 5.75 percent to 6.75 percent; the higher interest rate was to be paid to investors purchasing the notes for periods of 10 to 25 years.

CHAPTER 2

SUMMARY OF EARLIER GAO REPORT TO THE CONGRESS

ON FHA'S GRAZING LOAN PROGRAM

Our earlier review, made in calendar year 1967, covered loans made by FHA to 21 grazing associations in Colorado during the 1965 and 1966 grazing seasons. The review indicated a need for FHA officials to set minimum requirements to be met or exceeded by grazing associations before loans were closed.

Pursuant to its instructions, FHA was setting loan requirements for associations regarding the minimum number of members, the number of grazing units to be sold, and the amount of paid-in capital contributions from membership fees. These requirements were designed to ensure that sufficient resources would be available to each association to enable it to repay its loan, meet operating expenses, develop resources, and establish a cash reserve.

For the 21 loans covered in our earlier review, FHA had reduced the established requirements when the associations were unable to meet them. Further, FHA had made loans totaling \$12.8 million to 16 of the 21 associations, without requiring them to meet even the reduced loan requirements.

Since the loan requirements were designed to ensure that sufficient resources would be available to each association to enable it to operate successfully, we concluded that FHA's practice of making loans to an association before the prescribed requirements were met or exceeded or of reducing its requirements could impair the operations of the association and possibly could result in default of the loan and foreclosure by FHA. Although the 21 associations had been in operation a relatively short time at the time of our review, five of the 16 associations that did not meet FHA's reduced requirements were delinquent in making payments on their loans as of January 1967. The status of the 16 associations as of January 1, 1970, is discussed on page 15.

Because the grazing association loan program was a relatively new undertaking for FHA, we pointed out that early corrective action could reduce the possibility of defaults and foreclosures on future loans. We recommended that FHA establish procedures to provide that, on an individual loan basis, minimum requirements be established for the number of association members, the number of grazing units to be sold, and the amount of paid-in capital contributions and that loans not be closed until these minimum requirements had been met.

In March 1968, FHA revised its instructions for making grazing loans to associations. The revised instructions provided that FHA loan approval officials, in a letter of conditions to each association applying for a loan, establish the requirements which the association must meet regarding the

- minimum number of members,

- number of grazing units to be sold, and

- initial cash contributions to be collected from each member.

The revised instructions provided also that the number of grazing units required to be sold be the number estimated to be available during a typical year's operations. The instructions provided further that grazing loans not be closed until these loan requirements had been met by the grazing association.

CHAPTER 3

CONTINUED FAILURE TO ENFORCE LOAN-CLOSING CONDITIONS

INCREASES LIKELIHOOD OF LOAN DELINQUENCIES

Contrary to its revised instructions, FHA still is making loans to grazing associations without enforcing the minimum loan-closing conditions designed to ensure that associations will generate sufficient revenues to repay their FHA loans and meet their annual operating expenses. FHA's failure to require the associations to meet such conditions has resulted in its making grazing loans to associations which, at their very inception, did not appear to be capable of successful operations.

The loan-closing conditions established under FHA's revised instructions are to be determined on the basis of a financial feasibility study of the grazing project by the FHA county supervisor and are to be set forth in FHA's project summary and operating budget reports supporting the loan.

FHA officials have advised us that the most significant consideration in determining the financial feasibility of a grazing association is whether the association has sold the required number of grazing units. The number of grazing units sold denotes grazing needs. Such sales are the principal source of income to the association. According to FHA's revised instructions, the number of grazing units required to be sold should be the number estimated to be available during a typical year's operations after the grazing project is fully developed.

We reviewed 40 loans, totaling \$8 million, which were made during the period April 1968 through May 1970 to 37 grazing associations in Colorado, Idaho, Montana, and South Dakota. The 40 loans represented about 80 percent of the total amount of all grazing loans made by FHA in the four States during this period. During fiscal years 1969 and 1970, about 44 percent of the FHA grazing loans made nationwide were to associations in the four States.

Of the 40 loans, 21, totaling \$4.2 million, were made without requiring the associations to sell the number of grazing units which FHA's financial feasibility studies had indicated would be necessary for the associations to repay the loans and meet operating expenses. FHA's loan-closing conditions relating to the minimum number of members and the initial cash contributions to be collected from members generally were met by the 21 associations.

The following table shows the number of grazing units required to be sold by the 21 associations, as specified in FHA's feasibility studies and letters of conditions, and the number of grazing units actually sold at loan closing. Analysis of the table shows that FHA's letters of conditions for 15 of the 21 associations either required the sale of fewer grazing units than indicated by its financial feasibility studies or failed to specify the number of grazing units which should have been sold.

<u>Loan</u>	<u>Number of grazing units required to be sold</u>		<u>Number of grazing units sold at loan closing</u>
	<u>Feasibility study</u>	<u>Letter of conditions</u>	
1	3,300	-	2,800
2	3,600	2,730	2,895
3	1,850	-	1,375
4	1,610	-	1,565
5	4,500	4,500	3,775
6	2,270	2,270	2,170
7	1,150	1,074	1,074
8	360	360	330
9	2,475	1,200	1,200
10	716	500	500
11	325	320	320
12	1,200	-	910
13	800	-	600
14	1,650	-	1,600
15	1,114	-	1,000
16	1,539	1,539	1,212
17	3,018	2,952	2,795
18	315	290	-
19	1,590	1,400	1,400-1/3
20	1,225	1,225	175
21	780	780	702

The following three examples illustrate the extent to which the financial operations of the 21 associations may be impaired by losses in revenue because of the failure to sell the required number of grazing units prior to loan closing.

Association A

FHA made a loan to this association of \$559,000 in February 1969 to purchase and develop 9,325 acres of land for grazing purposes. FHA's financial feasibility study of the proposed project showed that the association would have an annual capacity of 2,475 grazing units--1,200 cows and 1,700 yearlings--and that it must obtain a typical year's income of \$93,075 by charging grazing fees of \$42.50 a cow and \$24.75 a yearling to meet annual loan repayments and operating expenses and to establish a cash reserve. In its letter of conditions, however, FHA required that only 1,200 units be sold as a condition to closing the loan.

Although, at the time that the loan was closed, the association had sold the 1,200 grazing units required, it had obtained only \$51,000 of the annual grazing income of \$93,075 which FHA's financial feasibility study had indicated would be necessary to sustain its operations.

An FHA State official advised us that FHA should have assured itself that the association had sold the 2,475 units prior to loan closing.

Association B

FHA made a loan to this association of \$498,000 in September 1969 to purchase and develop 17,836 acres of land for grazing purposes. FHA's financial feasibility study of the proposed project showed that the association had to obtain a typical year's income of \$50,085 by charging a grazing fee of \$31.50 for 1,590 grazing units to meet annual loan repayments and operating expenses and to establish a cash reserve. In its letter of conditions, however, FHA required that only 1,400 units be sold as a condition to closing the loan.

Although, at the time that the loan was closed, the association had sold the 1,400 grazing units, it had obtained only \$44,100 of the annual grazing income of \$50,085 which FHA's financial feasibility study had indicated would be necessary to sustain its operations.

The FHA county supervisor advised us that he had not been aware that under FHA instructions the association was required to sell the number of grazing units estimated to be available in a typical year's operation, as set forth in the financial feasibility study. The FHA State director advised us that the association should have been required to sell the 1,590 units and that the State office should have determined whether this requirement was met prior to loan closing.

Association C

FHA made a loan to this association of \$323,000 in April 1968 to expand its existing grazing operations. FHA's financial feasibility study of the proposed project showed that the association had to obtain a typical year's income of \$153,000 by charging a grazing fee of \$34 for 4,500 grazing units to meet annual loan repayments and operating expenses and to establish a cash reserve. In its letter of conditions, FHA required that 4,500 units be sold as a condition to closing the loan.

At the time that the loan was closed, however, the association had sold only 3,775 of the 4,500 grazing units. Thus the association had obtained only \$128,350 of the grazing income of \$153,000 which FHA's financial feasibility study had indicated would be necessary to sustain its operations.

We noted that, at the time of our fieldwork, the association had sold about 20,000 of its original 49,100 acres of grazing land and that it was negotiating for the sale of another 7,000 acres. The FHA county supervisor told us that the association's objectives were to reduce its landholdings to match the demand for grazing, to reduce its outstanding loan balance and annual loan payments, and to reduce its operating expenses.

CHAPTER 4

CURRENT STATUS OF LOANS TO GRAZING ASSOCIATIONS

DISCUSSED IN GAO'S EARLIER REPORT TO THE CONGRESS

We reviewed the financial status of the Colorado grazing associations covered during our earlier review, to ascertain the potential effect of making loans without the associations' meeting the required loan-closing conditions. As of January 1967, five of the 16 grazing associations that had not met the reduced loan-closing requirements established by FHA were delinquent on their loan payments. FHA, in commenting on a draft of our earlier report, had stated its belief that all 16 associations would be current on their their loan payments and would realize net operating profits by the end of calendar year 1968.

As of January 1970, of the 16 associations, seven were delinquent on their loan payments in the amount of \$264,534, seven were current on their loan payments, and two were ahead on their loan payments. The loan repayment status of each of the 16 associations is shown in appendix III.

Further, due partly to the failure of the associations to obtain the required grazing income, 12 of the 16 associations sustained operating losses in calendar year 1969. If such losses were to continue, additional loan payments could become delinquent. The following table summarizes the results of the operations of the 16 associations through the 1969 grazing season. Details on the results of the operations are shown in appendix IV.

<u>Year</u>	<u>Total associations operating</u>	<u>Results of operations</u>	
		<u>Number with net operating profits</u>	<u>Number with net operating losses</u>
1965	10	2	8
1966	16	4	12
1967	16	5	11
1968	16	11	5
1969	16	4	12

Eight loans, totaling \$531,750, were made to seven of the 16 associations after FHA issued its revised instructions in March 1968. For six of the eight loans, the associations had not, prior to loan closing, sold the number of grazing units which FHA had established in its financial feasibility studies. FHA State officials in Colorado were unable to explain why the associations had not been required to sell the established number of grazing units before the loans were closed.

CHAPTER 5

CONCLUSIONS, PROPOSAL, AND AGENCY ACTIONS

CONCLUSIONS AND GAO PROPOSAL

Although FHA had issued revised instructions in March 1968, our review showed that numerous loans still were being made to grazing associations without requiring them to meet the prescribed loan-closing conditions designed to ensure that the loans are financially sound.

We have concluded that there is a need for FHA officials at the national headquarters office to take additional steps to ensure that FHA loan-closing requirements are properly established and enforced by FHA State and county offices. In our opinion, the fact that 12 of the 16 grazing associations included in our earlier review incurred net operating losses in calendar year 1969 indicates the importance of strict adherence to established minimum requirements as a condition to the closing of loans.

We proposed in a draft of this report that the Administrator of FHA require that a program be established for monitoring, at the State and county offices, the closing of grazing loans. We suggested that the program include evaluations, made on a systematic basis, of the adequacy of the established loan-closing conditions and of whether these conditions had been met by the associations. We proposed also that the evaluations be made prior to the closing of loans so that Government funds would not be disbursed until the potential fiscal soundness of grazing associations had been determined.

AGENCY ACTIONS

The Administrator of FHA advised us by letter dated March 10, 1971 (see app. I), that FHA was changing its regulations for grazing loans to require that

- each letter of conditions establish the minimum number of members required, the number of grazing units to be sold, and the amount to be collected for each grazing unit prior to loan closing;

- the number of grazing units to be sold be the number determined by FHA's financial feasibility study; and
- no loan to a grazing association be closed until FHA's district supervisor had certified by memorandum to the FHA State director that all loan-closing conditions had been met.

The Administrator advised us also that FHA was taking positive steps to improve its line supervision over county office operations. He stated that FHA had increased the number of district supervisor positions by 78 during fiscal year 1971 and that this action would reduce the number of county offices reporting to district supervisors.

In a bulletin dated March 8, 1971 (see app. II), the Administrator advised the FHA State directors of the revised requirements.

APPENDIXES

UNITED STATES DEPARTMENT OF AGRICULTURE

FARMERS HOME ADMINISTRATION

WASHINGTON, D.C. 20250

OFFICE OF THE ADMINISTRATOR

MAR 10 1971

Mr. Bernard Sacks
Assistant Director
Civil Division
General Accounting Office
Washington, D. C.

Dear Mr. Sacks:

We appreciate the opportunity to review the draft report forwarded with your January 8 letter.

We are changing our regulations to require:

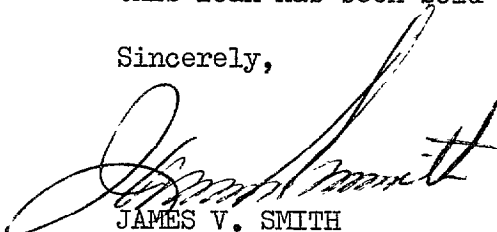
1. Each letter of conditions will establish the minimum number of memberships to be issued, the number of grazing units to be sold, and the amount to be collected for each grazing unit prior to loan closing. The number of grazing units to be sold will be the number on which economic feasibility is based.

2. No grazing association loan will be closed until the Farmers Home Administration district supervisor has certified by memorandum to the state director that all loan closing requirements have been met.

We are taking positive steps to improve our line supervision over county office operations. During this fiscal year, we have increased the number of district supervisor positions by 78. This will reduce the number of county offices reporting to the district supervisor to about six or seven.

The draft report mentions that as of January 1, 1970, about \$2.3 million of the \$76 million then outstanding was delinquent. Over \$1.4 million of the delinquency represented one loan on which we had declared the entire amount due and payable as a servicing action. Security for this loan has been sold to a third party and the loan is now current.

Sincerely,



JAMES V. SMITH
Administrator

APPENDIX II

FHA Bulletin No. 3891(442)

UNITED STATES DEPARTMENT OF AGRICULTURE

FARMERS HOME ADMINISTRATION

WASHINGTON, D.C. 20250

OFFICE OF THE ADMINISTRATOR

March 8, 1971

Subject: Loans to Grazing Associations

To: All State Directors, FHA

Each letter of conditions will establish the minimum number of memberships to be issued, the number of grazing units to be sold, and the amount to be collected for each grazing unit prior to loan closing. The number of grazing units to be sold will be the number on which loan feasibility is based.

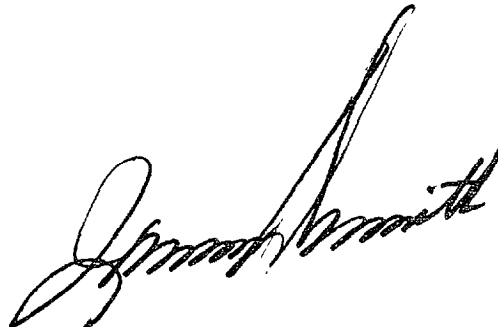
Loans to grazing associations will not be closed until the district supervisor has certified by memorandum to the state director that all loan approval requirements have been met. Each such memorandum will certify the required number of members has been obtained, all grazing units have been sold, and the initial cash contribution for each such grazing unit has been collected.

A signed copy of the memorandum will be provided the county supervisor for the loan file.

The above requirements are applicable to all loans not yet closed.

This requirement is being incorporated into FHA Instruction 442.2.

JAMES V. SMITH
Administrator

A handwritten signature in dark ink, appearing to read 'James V. Smith', is written over a large, faint, circular stamp that is mostly illegible.

This bulletin expires June 30, 1971.

APPENDIX III

LOAN REPAYMENT STATUS ON JANUARY 1, 1970, OF LOANS MADE TO 16 GRAZING ASSOCIATIONS IN COLORADO INCLUDED IN PRIOR REPORT

<u>Association</u>	<u>Amount of loans</u>		<u>Status on January 1, 1970, of total loans</u>		
	<u>As of prior report</u>	<u>As of current review</u>	<u>On schedule</u>	<u>Ahead of schedule</u>	<u>Behind schedule</u>
A	\$ 875,140	\$ 875,140			\$ 72,944
B	879,130	888,130	X		
C	700,900	740,650			494
D	840,350	730,303 ^a	X		
E	884,700	902,200			23,534
F	740,500	740,500		\$1,384	
G	737,000	1,067,000		6,425	
H	677,400	739,000	X		
I	590,600	590,600			7,927
J	405,500	405,500	X		
K	742,500	742,500			13,273
L	640,300	640,300			14,861
M	1,379,770	1,702,770			131,501
N	1,844,670	1,844,670	X		
O	322,330	322,330	X		
P	550,000	650,000	X		
Total	<u>\$12,810,790</u>	<u>\$13,581,593</u>		<u>\$7,809</u>	<u>\$264,534</u>

^aOriginal loan has been reduced because of sale of part of the land included in the original association.

SCHEDULE OF NET OPERATING RESULTS OF LOANS MADE TO
16 GRAZING ASSOCIATIONS INCLUDED IN PRIOR REPORT
FOR GRAZING SEASONS 1965 THROUGH 1969

Association	1965 grazing season			1966 grazing season		
	Reported profit or loss(-) from operations	GAO adjust- ments (note a)	Adjusted profit or loss(-) from operations	Reported profit or loss(-) from operations	GAO adjust- ments (note a)	Adjusted profit or loss(-) from operations
A	-\$27,130	\$ -	-\$27,130	-\$11,640	\$ -	-\$11,640
B	1,860	-850	1,010	6,630	-11,220	4,590
C	-16,910	-	-16,910	-1,960	-14,040	-16,000
D	-890	-17,690	-18,580	6,780	-17,020	-10,240
E	-12,200	-	-12,200	-4,200	-	-4,200
F	-16,670	-680	-17,350	-7,890	-9,960	-17,850
G	1,770	-	1,770	590	-6,730	-6,140
H	-11,370	-	-11,370	5,950	-	5,950
I	-2,900	-3,060	-5,960	17,000	-4,600	12,400
J	6,490	-10,040	-3,550	10,960	-14,340	-3,380
K	-	-	-	750	-350	400
L	-	-	-	-6,360	-230	-6,590
M	-	-	-	13,760	-40,800	-27,040
N	-	-	-	70,360	-80,520	-10,160
O	-	-	-	-2,810	-	-2,810
P	-	-	-	9,250	-9,590	-340

^a The GAO adjustments were principally for items recorded as operating income which (1) represented membership fees and assessments which should have been recorded by the associations as invested capital; (2) were gains on sale of land or easements, which were nonrecurring items, and not income from grazing association operations; and (3) were Government reimbursements for land improvements, such as wells and fencing, made under Great Plains contracts with the Soil Conservation Service, which should have been recorded by the associations as a reduction of the cost of fixed assets or as donated capital. Adjustments also were made to reported profits for accrued interest payments due FHA and not shown in the associations' financial statements.

1967 grazing season			1968 grazing season			1969 grazing season		
Reported profit or loss(-) from operations	GAO adjust- ments (note a)	Adjusted profit or loss(-) from operations	Reported profit or loss(-) from operations	GAO adjust- ments (note a)	Adjusted profit or loss(-) from operations	Reported profit or loss(-) from operations	GAO adjust- ments (note a)	Adjusted profit or loss(-) from operations
-\$22,690	\$ 770	-\$21,920	-\$19,280	-\$5,250	-\$24,530	-\$26,990	-\$3,110	-\$30,100
2,970	-3,460	-490	7,750	-600	7,150	10,020	-2,710	7,310
-5,250	-	-5,250	-2,160	8,200	6,040	8,720	-6,480	2,240
-6,680	-1,100	-7,780	5,990	-5,070	920	3,490	-1,400	2,090
1,180	-960	220	-11,790	-	-11,790	-8,650	-1,110	-9,760
-2,220	-1,180	-3,400	3,220	-3,860	-640	3,750	-5,840	-2,090
-1,970	-3,240	-5,210	9,700	-5,760	3,940	3,680	-6,170	-2,490
9,230	-1,500	7,730	13,530	-1,500	12,030	-12,640	-7,550	-20,190
8,980	-16,340	-7,360	5,140	-5,130	10	-8,670	-2,030	-10,700
8,010	-4,410	3,600	11,710	-9,350	2,360	9,920	-6,190	3,730
7,670	-9,130	-1,460	5,180	-20	5,160	-1,470	-6,000	-7,470
10,080	-22,710	-12,630	5,370	-1,680	3,690	13,950	-15,740	-1,790
6,730	-3,510	3,220	-33,040	-2,580	-35,620	-70,120	-2,500	-72,620
-29,040	-8,520	-37,560	6,820	-	6,820	-46,180	-	-46,180
-3,290	-	-3,290	-3,560	-	-3,560	-1,340	-400	-1,740
9,750	-	9,750	9,340	-3,540	5,800	-10,710	-790	-11,500

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF AGRICULTURE
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF AGRICULTURE:		
Clifford M. Hardin	Jan. 1969	Present
Orville L. Freeman	Jan. 1961	Jan. 1969
ASSISTANT SECRETARY OF AGRICULTURE FOR RURAL DEVELOPMENT AND CON- SERVATION:		
Thomas K. Cowden	Apr. 1969	Present
John A. Baker	Mar. 1961	Jan. 1969
ADMINISTRATOR, FARMERS HOME AD- MINISTRATION:		
James V. Smith	Jan. 1969	Present
Howard Bertsch	Apr. 1961	Jan. 1969